Accountant Signature

Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

ssued under P.A. 2 of 1968, as amended.								
	Government Name TY OF YALE	ST. CLA						
Audit Date	Date Accountant Report Submitted to State: 12/2/05	int Report Submitted to State:						
We have audited the financial statements of this local accordance with the Statements of the Government Financial Statements for Counties and Local Units of G	al Accounting Standards Board (GASB) and	the Uniform R	Reporting Format f					
We affirm that:								
1. We have complied with the Bulletin for the Audits of	of Local Units of Government in Michigan as revi	sed.						
2. We are certified public accountants registered to p	ractice in Michigan.							
We further affirm the following. "Yes" responses have be comments and recommendations	peen disclosed in the financial statements, include	ding the notes,	or in the report of					
You must check the applicable box for each item below								
Yes V No 1. Certain component units/fund	s/agencies of the local unit are excluded from th	e financial stat	ements.					
Yes No 2. There are accumulated deficition 275 of 1980).	its in one or more of this unit's unreserved fun	d balances/reta	ained earnings (P./					
Yes No 3. There are instances of non-amended).	compliance with the Uniform Accounting and	Budgeting Act	(P.A. 2 of 1968,					
	the conditions of either an order issued unde ued under the Emergency Municipal Loan Act.	r the Municipa	I Finance Act or					
Yes No 5. The local unit holds deposits as amended [MCL 129.91], o	s/investments which do not comply with statutor P.A. 55 of 1982, as amended [MCL 38.1132]).	ory requirement	s. (P.A. 20 of 194					
Yes Vo 6. The local unit has been delined	quent in distributing tax revenues that were colle	cted for anothe	r taxing unit.					
Yes No 7. pension benefits (normal cos	he Constitutional requirement (Article 9, Sections) in the current year. If the plan is more than mal cost requirement, no contributions are due	n 100% funded	and the overfundi					
Yes No 8. The local unit uses credit compact (MCL 129.241).	ards and has not adopted an applicable polic	y as required b	oy P.A. 266 of 19					
Yes No 9. The local unit has not adopte	d an investment policy as required by P.A. 196	of 1997 (MCL 1	29.95).					
We have enclosed the following:	Enclosed	To Be d Forward						
The letter of comments and recommendations.	✓							
Reports on individual federal financial assistance pro-	grams (program audits).		✓					
Single Audit Reports (ASLGU).			✓					
Certified Public Accountant (Firm Name)								
BERTHIAUME & COMPANY CPAS Street Address 60 HARROW LANE	City SAGINAW	State MI	ZIP. 48638					

Date

-05.

CITY OF YALE

St. Clair County, Michigan

FINANCIAL STATEMENTS

June 30, 2005

TABLE OF CONTENTS

June 30, 2005

	PAGE
Independent Auditors' Report.	1
Management's Discussion and Analysis.	3
Basic Financial Statements	
Government-wide Financial Statements Statement of Net Assets Statement of Activities	13 14
Fund Financial Statements Governmental Funds Balance Sheet	15
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities Statement of Revenues, Expenditures and Changes in Fund Balances	16 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Proprietary Funds Statement of Net Assets Statement of Revenues, Expenses, and Changes in Net Assets Statement of Cash Flows	19 20 22
Fiduciary Funds Statement of Net Assets	24
Notes to Financial Statements	26
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	42 43 44
Other Supplemental Information	
General Fund Detailed Schedule of Revenues. Detailed Schedule of Expenditures.	46 47
Nonmajor Governmental Funds Combining Balance Sheet Combining Statement of Revenues, Expenditures and Changes in Fund Balances	51 52
Proprietary Funds – Internal Service Funds Combining Statement of Net Assets Combining Statement of Revenues, Expenses, and Changes in Net Assets Combining Statement of Cash Flows	
Fiduciary Funds – Agency Funds Combining Statement of Changes in Assets and Liabilities	. 56
Schedules of Indebtedness Governmental Activities Business-type Activities Component Units	57 58 60

Report on Internal Control over Financial Reporting and on Compliance and	
Other Matters Based on an Audit of Financial Statements Performed in	
Accordance with Government Auditing Standards	
62	
Management Letter	63



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INDEPENDENT AUDITORS' REPORT

To the Members of City Council City of Yale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Yale as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Yale's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Yale, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

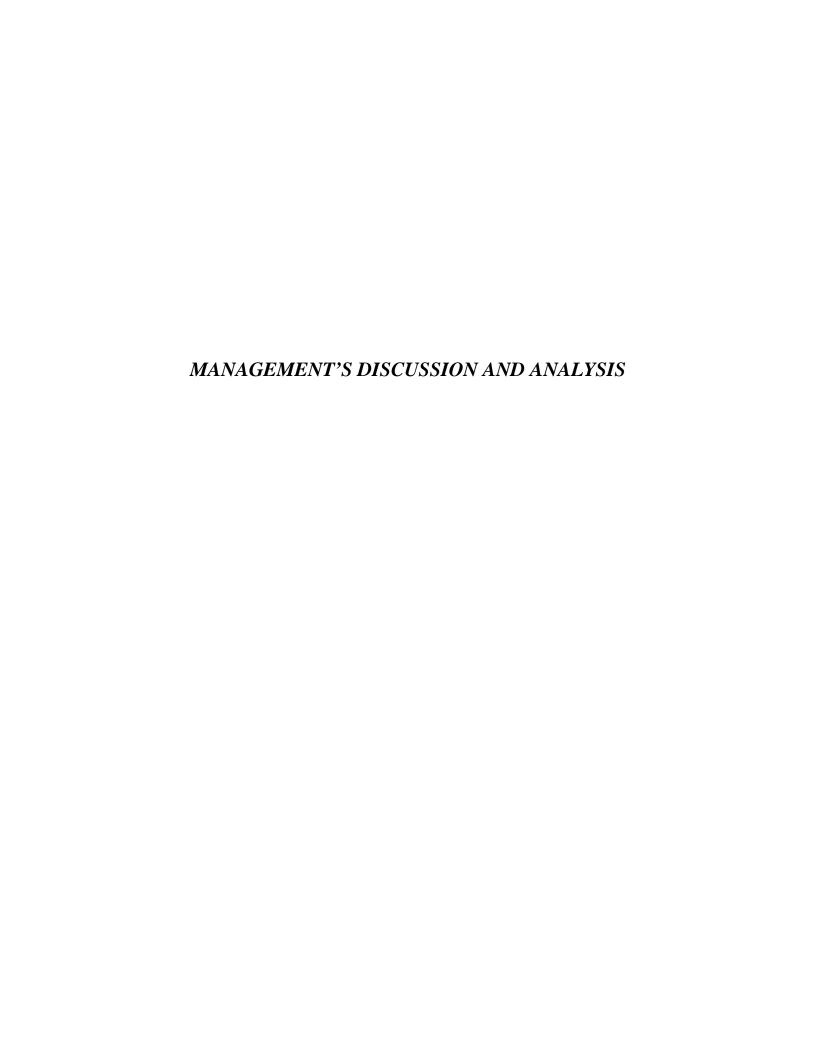
In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2005, on our consideration of the City of Yale's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Yale's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthraume & Co.

September 21, 2005



Overview of the Financial Statements:

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements:

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, Stateshared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are included here.

Component Units – The City includes the Downtown Development Authority and the Local Development Finance Authority in its report.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short-and long-term financial information.

Fiduciary Funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights:

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$5,865,661 (net assets), an increase of \$469,171 from the previous year. Of the \$5,865,661 reported in net assets, approximately \$1,562,328 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.
- Net assets of our governmental activities increased \$174,611, or 8.4 percent, while net assets of our business-type activities increased \$294,560, or 8.9 percent.
- Unrestricted net assets for governmental activities and business-type activities exceed expenses.
- The General Fund reported a net change in fund balance of \$27,998 for the year. This resulted in a year end fund balance of \$555,394. Of this amount, \$510,173 is unreserved and undesignated, or 65.2 percent of General Fund expenditures.
- The City's total debt decreased by \$297,000 during the current fiscal year. Of this amount \$182,000 was as a result of annual debt service requirements and \$125,000 was a payoff of a bond.

The City as a Whole:

The City's combined net assets are \$5,865,661 at June 30, 2005. Business-type activities make up \$3,600,723 and governmental activities make up \$2,264,938 of the total. A comparative condensed statement of net assets and condensed statement of activities are shown below.

City of Yale – Net Assets:

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$5,865,661 (net assets). However, a major portion (67 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

Unrestricted net assets of the City decreased from \$1,693,783 at June 30, 2004 to \$1,562,328 at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following is a comparative condensed statement of net assets at June 30, 2005 and 2004.

		Governn Activi			Busines. Activi	J 1	
		<u> 2005</u>	<u>2004</u>		<u> 2005</u>	<u>2004</u>	
Assets:							
Current and other assets	\$	1,300,752	\$ 1,277,753	\$	755,701	\$ 821,953	
Capital assets		1,148,761	1,048,953	_	5,860,646	5,748,116	
Total assets		2,449,513	2,326,706		6,616,347	6,570,069	
Liabilities:							
Long-term liabilities		162,707	170,243		2,947,939	3,244,768	
Other liabilities		21,868	47,258	_	67,685	38,016	
Total liabilities		184,575	217,501		3,015,624	3,282,784	
Net assets:							
Invested in capital assets, net of related debt		1,003,761	893,953		2,914,646	2,505,116	
Restricted		320,134	249,834		64,792	53,804	
Unrestricted	_	941,043	965,418		621,285	728,365	
Total net assets	\$	2,264,938	\$ 2,109,205	\$	3,600,723	\$ 3,287,285	

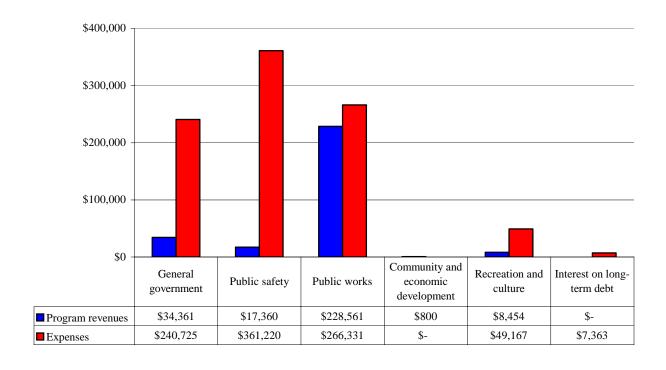
The following table shows the changes in net assets for 2005 and 2004:

	Govern Activ				Busine. Activ	vities		
	<u>2005</u>		<u>2004</u>		<u>2005</u>		<u>2004</u>	
Revenues:								
Program revenues								
Charges for services	\$ 143,219	\$	115,041	\$	623,175	\$	624,785	
Operating grants and contributions	146,317		206,655		-		-	
Capital grants and contributions	-		-		116,998		140,000	
General revenues								
Property taxes	476,704		450,264		-		-	
State revenue sharing - sales tax	214,271		216,632		-		-	
Investment earnings	47,319		8,636		22,187		17,670	
Miscellaneous	 14,616		9,102					
Total revenues	1,042,446		1,006,330		762,360		782,455	
Expenses:								
General government	240,725		238,526		-		-	
Public safety	361,220		376,938		-		-	
Public works	266,331		606,561		-		-	
Recreation and culture	49,167		47,980		_		-	
Interest on long-term debt	7,363		11,855		-		-	
Sewer	-		-		199,391		212,194	
Water	 			-	268,409		286,544	
Total expenses	 924,806	_	1,281,860	_	467,800		498,738	
Excess (deficiency) of revenues over								
expenses before other items	 117,640	_	(275,530)		294,560	_	283,717	
Other Items:								
Contributions to principal of permanent funds	4,600		4,150		_		_	
Special item - gain on sale of capital assets	52,371		´-		_		_	
Transfers	 		45,343			_		
	 56,971		49,493	_				
Change in net assets	174,611		(226,037)		294,560		283,717	
Net assets, beginning of year, as restated	 2,090,327		2,335,242		3,306,163		3,003,568	
Net assets, end of year	\$ 2,264,938	\$	2,109,205	\$	3,600,723	\$	3,287,285	

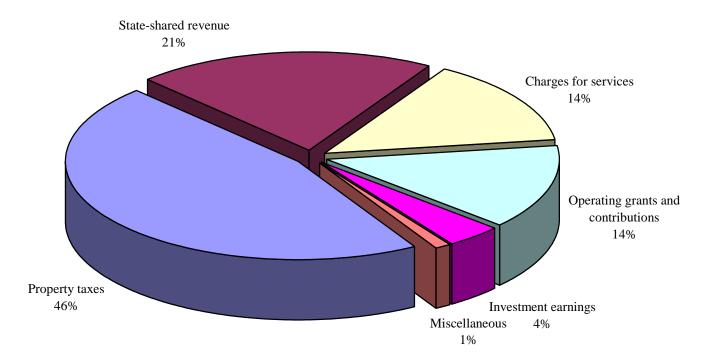
Governmental Activities:

For the year ended June 30, 2005, revenues for the City's governmental activities totaled \$1,042,446. Property taxes accounted for 46 percent of the total revenues, or \$476,704. State-shared revenues were 21 percent, or \$214,271; these revenues continue to be a concern as to future funding levels.

Governmental Activities Program Revenues and Expenses



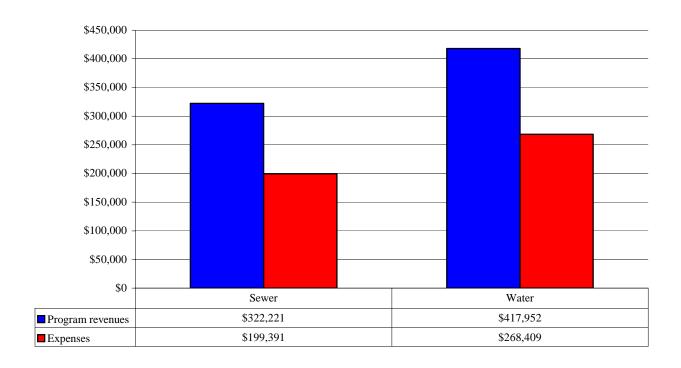
Governmental Activities Revenue by Source



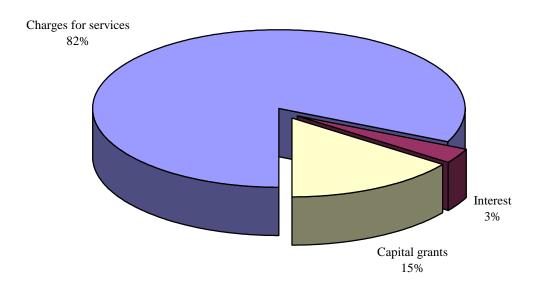
Business-type Activities:

For the year ended June 30, 2005, revenues for business-type activities were \$762,360. Charges for services were 82 percent of gross revenues, or \$623,175. Capital grants were 15 percent of gross revenues, or \$116,998.

Business-type Activities Program Revenues and Expenses



Business-type Activities Revenue by Source



The City has two business type-activities: the sewer and water systems. In total, these two activities generated \$623,175 in charges for services, and incurred \$467,800 in expenses. In addition, general revenues for business-type activities were \$22,187. The City's business-type activities experienced an increase in net assets of \$294,560 for the year.

Capital Assets and Debt Administration:

At the end of fiscal year 2005, the City has \$8,424,656 invested, before depreciation, in a wide range of capital assets, including land, land improvements, buildings and improvements, equipment, and sewer and water distribution systems. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets.

Debt of \$145,000 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer and water systems totaling \$2,946,000 is recorded as a liability in the business-type activities in the statement of net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

The City's Funds:

The fund financial statements provide detailed information on the most significant governmental funds — not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental funds for 2005 include the General Fund, Major Street Fund, and Local Street Fund.

The City's governmental funds reported combined fund balance of \$926,972 for this year, an increase of \$84,458 from last year.

Budgetary Highlights:

Differences between the original and final amended budgets for the General Fund, Major Street Fund, and Local Street Fund revenues and expenditures were relatively minor.

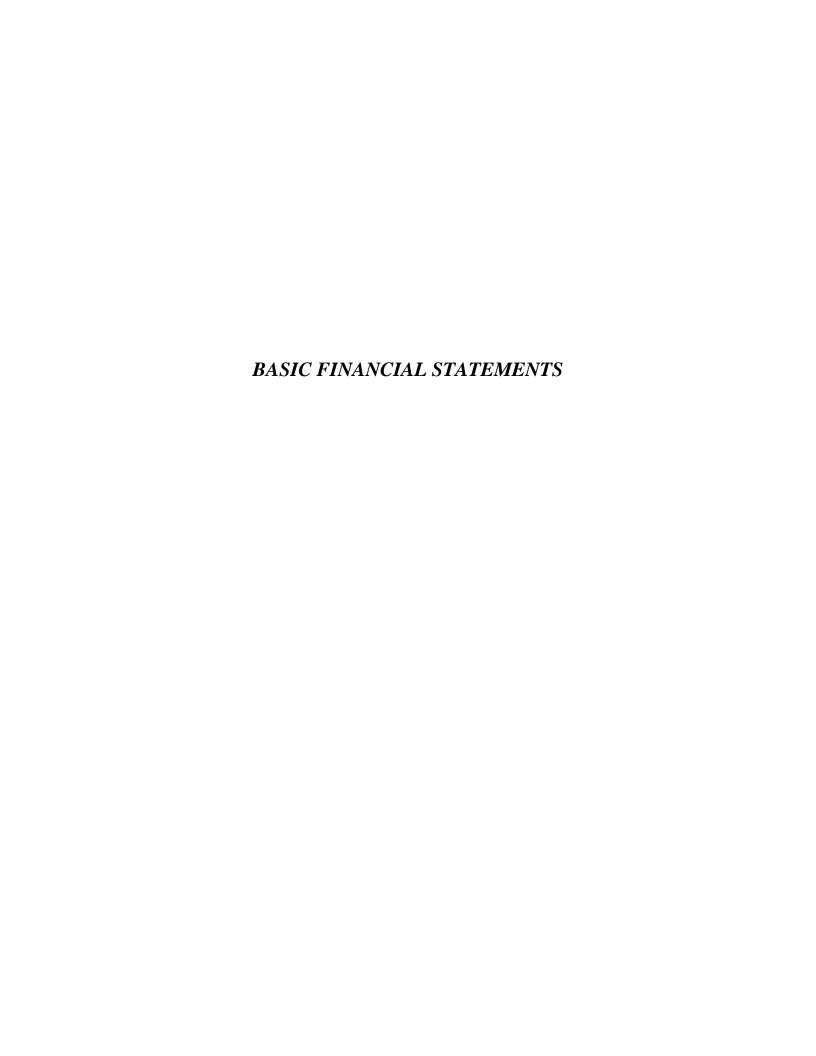
Economic Factors:

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care).

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John Osborn, City Manager, 111 West Mechanic Street, Yale, Michigan 48097.



STATEMENT OF NET ASSETS

June 30, 2005

	Pr	_		
	Governmental	Business-type		Component
	Activities	Activities	<u>Total</u>	Units
Assets:				
Cash and cash equivalents	\$ 1,146,405	\$ 587,515	\$ 1,733,920	\$ 102,215
Investments	2,545	-	2,545	-
Receivables	106,081	102,800	208,881	7,387
Prepaid expenses	45,721	594	46,315	-
Restricted cash and cash equivalents	, -	64,792	64,792	-
Capital assets:				
Nondepreciable capital assets	381,161	-	381,161	-
Depreciable capital assets, net	767,600	5,860,646	6,628,246	
Total assets	2,449,513	6,616,347	9,065,860	109,602
Liabilities:				
Accounts payable and accrued expenses Long-term liabilities:	21,868	67,685	89,553	6,958
Due within one year	10,000	169,000	179,000	31,291
Due in more than one year	152,707	2,778,939	2,931,646	53,391
Total liabilities	184,575	3,015,624	3,200,199	91,640
Net assets:				
Invested in capital assets, net of related debt	1,003,761	2,914,646	3,918,407	-
Restricted for:				
Debt service	=	64,792	64,792	-
Streets	221,679	-	221,679	-
Nonexpendable cemetery principal	98,455	-	98,455	-
Unrestricted	941,043	621,285	1,562,328	17,962
Total net assets	\$ 2,264,938	\$ 3,600,723	\$ 5,865,661	\$ 17,962

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

			P	rogra	am Revenu	es		_	
	Expenses		arges for ervices	Gi	perating cants and atributions	Gr	Capital rants and atributions		(Expense) Revenue
Functions/Programs PRIMARY GOVERNMENT: Governmental activities:									
General government	\$	240,725	\$ 33,846	\$	515	\$	-	\$	(206, 364)
Public safety		361,220	11,895		5,465		-		(343,860)
Public works		266,331	96,678		131,883		-		(37,770)
Community and economic development		-	800		-		-		800
Recreation and culture		49,167	-		8,454		-		(40,713)
Interest on long-term debt		7,363	 -		-		-		(7,363)
Total governmental activities		924,806	 143,219		146,317				(635,270)
Business-type activities:									
Sewer		199,391	322,221		-		-		122,830
Water		268,409	 300,954		-		116,998		149,543
Total business-type activities		467,800	 623,175			_	116,998		272,373
Total primary government	\$	1,392,606	\$ 766,394	\$	146,317	\$	116,998	\$	(362,897)
COMPONENT UNITS:									
Downtown development authority	\$	27,789	\$ -	\$	-	\$	-	\$	(27,789)
Local development finance authority		6,696	 -		-		-		(6,696)
Total component units	\$	34,485	\$ 	\$		\$		\$	(34,485)

continued

		Pri						
			E	Business-				
	Go	vernmental		type		$C\alpha$	omponent	
	1	Activities	A	Activities	Total	Units		
Changes in net assets								
Net (Expense) Revenue	\$	(635,270)	\$	272,373	\$ (362,897)	\$	(34,485)	
General revenues:								
Taxes:								
Property taxes, levied for general purpose		417,259		-	417,259		96,309	
Property taxes, levied for police protection		59,445		-	59,445		-	
Grants and contributions not restricted to								
specific programs		214,271		=	214,271		-	
Unrestricted investment earnings		47,319		22,187	69,506		1,176	
Miscellaneous		14,616		-	14,616		-	
Contributions to principal of permanent funds		4,600		=	4,600		-	
Special item - Gain on sale of capital asset		52,371			 52,371			
Total general revenues, contributions, and								
special items		809,881		22,187	 832,068	_	97,485	
Change in net assets		174,611		294,560	469,171		63,000	
Net assets, beginning of year, as restated		2,090,327		3,306,163	 5,396,490		(45,038)	
Net assets, end of year	\$	2,264,938	\$	3,600,723	\$ 5,865,661	\$	17,962	

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2005

		General Fund		Major Street Fund		Local Street Fund		Nonmajor overnmental Funds	Go	Total vernmental Funds
Assets:										
Cash and cash equivalents	\$	441,363	\$	102,070	\$	99,986	\$	149,388	\$	792,807
Investments		-		-		-		2,545		2,545
Accounts receivable		13,892		-		-		-		13,892
Interest receivable		3,142		-		-		-		3,142
Due from other governmental units		68,422		14,637		5,988		-		89,047
Due from other funds		-		-		-		9,779		9,779
Prepaid expenditures		45,221						500		45,721
Total assets	\$	572,040	\$	116,707	\$	105,974	\$	162,212	\$	956,933
Liabilities and Fund Balances: Liabilities: Accounts payable and										
accrued expenses	\$	16,641	\$	1,002	\$	_	\$	2,534	\$	20,177
Due to other governmental units	Ψ	5	Ψ	-	Ψ	_	Ψ	2,331	Ψ	5
Due to other funds	_							9,779		9,779
Total liabilities		16,646		1,002				12,313		29,961
Fund balances:										
Reserved for										
Prepaid expenditures		45,221		-		-		500		45,721
Nonexpendable cemetery principal		-		-		-		98,455		98,455
Unreserved:										
General fund		510,173		-		-		-		510,173
Special revenue funds				115,705		105,974		50,944		272,623
Total fund balances		555,394		115,705		105,974		149,899		926,972
Total liabilities and fund balances	\$	572,040	\$	116,707	\$	105,974	\$	162,212	\$	956,933

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2005

Total fund balances for governmental funds		\$ 926,972
Total net assets reported for governmental activities in the statement of of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	823,279	
Less accumulated depreciation	(340,965)	482,314
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Compensated absences payable		(17,707)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		 873,359
Net assets of governmental activities		\$ 2,264,938

$GOVERNMENTAL\ FUNDS$

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	General Fund		Major Street Fund		Local Street Fund	onmajor vernmental Funds	Total Governmental Funds		
Revenues:									
Property taxes	\$	476,705	\$ -	\$	-	\$ -	\$	476,705	
Licenses and permits		4,778	-		-	-		4,778	
State grants		218,506	90,494		37,013	1,230		347,243	
Contributions from other units		-	-		-	7,454		7,454	
Charges for services		73,412	-		-	20,871		94,283	
Fines and forfeits		7,117	-		-	-		7,117	
Interest and rents		12,030	6,664		4,085	10,994		33,773	
Other revenue		12,116	 4,376			 15,240		31,732	
Total revenues		804,664	 101,534		41,098	 55,789		1,003,085	
Expenditures: Current									
General government		181,420	-		-	36,510		217,930	
Public safety		355,833	-		-	1,619		357,452	
Public works		183,554	50,203		27,043	4,310		265,110	
Recreation and culture		41,291	-		-	291		41,582	
Other		13,758	-		-	-		13,758	
Capital outlay		6,810	 -			 21,985		28,795	
Total expenditures		782,666	 50,203		27,043	 64,715		924,627	
Excess (deficiency) of									
revenues over expenditures		21,998	 51,331	_	14,055	 (8,926)	_	78,458	
Other financing sources (uses):									
Transfers in		6,000	-		-	9,779		15,779	
Transfers out			 -			 (9,779)		(9,779)	
Total other financing									
sources and (uses)		6,000	 			 		6,000	
Net change in fund balances		27,998	51,331		14,055	(8,926)		84,458	
Fund balances, beginning of year		527,396	 64,374		91,919	 158,825		842,514	
Fund balances, end of year	\$	555,394	\$ 115,705	\$	105,974	\$ 149,899	\$	926,972	

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - total governmental funds		\$ 84,458
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	25,078	
Less depreciation expense	(15,176)	9,902
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable		(2,464)
The net revenue (expense) of the internal service fund is reported with governmental activities.		 82,715
Change in net assets of governmental activities		\$ 174,611

STATEMENT OF NET ASSETS

June 30, 2005

Business-type Activities					
		or Enterprise Fi	unds	Internal	
	Sewer	Water	T . 1	Service	
	Fund	<u>Fund</u>	Total	Funds	
Assets:					
Current Assets:	¢ 217.977	¢ 260.649	¢ 507.515	ф 252 500	
Cash and cash equivalents Accounts receivable	\$ 317,867 56,218	\$ 269,648 46,582	\$ 587,515 102,800	\$ 353,598	
Prepaid expenses	297	297	594	_	
				252.500	
Total current assets	374,382	316,527	690,909	353,598	
Noncurrent assets:					
Restricted cash and cash equivalents	-	64,792	64,792	-	
Capital assets:					
Nondepreciable capital assets	-	-	-	138,341	
Depreciable capital assets, net	2,940,919	2,919,727	5,860,646	528,106	
Total noncurrent assets	2,940,919	2,984,519	5,925,438	666,447	
Total assets	3,315,301	3,301,046	6,616,347	1,020,045	
Liabilities: Current Liabilities:					
Accounts payable and accrued expenses	11,442	56,243	67,685	1,686	
Current portion of long-term debt	125,000	44,000	169,000	10,000	
Total current liabilities	136,442	100,243	236,685	11,686	
Noncurrent liabilities:					
Compensated absences payable	518	1,421	1,939	-	
Long-term debt	1,115,000	1,662,000	2,777,000	135,000	
Total noncurrent liabilities	1,115,518	1,663,421	2,778,939	135,000	
Total liabilities	1,251,960	1,763,664	3,015,624	146,686	
Net assets:					
Invested in capital assets, net of related debt	1,700,919	1,213,727	2,914,646	521,447	
Restricted for:					
Debt service	-	64,792	64,792	-	
Unrestricted	362,422	258,863	621,285	351,912	
Total net assets	\$ 2,063,341	\$ 1,537,382	\$ 3,600,723	\$ 873,359	

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2005

Business-type Activities					Governmental Activities			
Major Enterprise Funds					Internal			
		Sewer	OI L	Water Fund				ervice
		Fund				Total		Funds
Operating revenues:				1 111111		10101		
Charges for services	\$	314,828	\$	295,012	\$	609,840	\$	9,900
Penalties	Ψ	6,143	Ψ	5,942	Ψ	12,085	Ψ	<i>-</i>
Equipment rental		-		-		-		83,619
Other		1,250		_		1,250		-
				200.054		_		02.510
Total operating revenues		322,221		300,954		623,175		93,519
Operating expenses:								
Personnel		32,316		52,995		85,311		13,537
Fringe benefits		6,359		14,972		21,331		3,518
Supplies		3,356		14,918		18,274		6,625
Contracted services		13,281		10,978		24,259		3,372
Telephone		508		-		508		-
Mileage		-		198		198		-
Dues and memberships		60		1,108		1,168		-
Education and training		-		265		265		-
Printing and publishing		-		861		861		-
Insurance		400		508		908		-
Utilities		7,794		12,146		19,940		-
Repair and maintenance		17,756		5,858		23,614		18,321
Equipment rental		11,890		20,435		32,325		-
Other services and supplies		67		118		185		35
Depreciation		83,024		49,370		132,394		36,153
Total operating expenses		176,811		184,730		361,541		81,561
Operating income (loss)		145,410		116,224		261,634		11,958
Non-operating revenues (expenses):								
Federal grants		-		116,998		116,998		_
Interest income		15,357		6,830		22,187		17,596
Rental income		-		-		-		11,853
Other revenue		-		-		-		2,300
Interest expense		(22,580)		(83,679)		(106,259)		(7,363)
Total non-operating revenues (expenses)		(7,223)		40,149		32,926		24,386
Net income (loss) before operating transfers		138,187		156,373		294,560		36,344

continued

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended June 30, 2005

				Governmental			
	Bus	Activities					
	Maj	Major Enterprise Funds					
	Sewer	Water		Service			
	Fund	Fund	Total	Funds			
Operating transfers:							
Transfer from other funds	_	-	-	19,500			
Transfer to other funds				(25,500)			
Total operating transfers	-	-	-	(6,000)			
Net income (loss)	138,187	156,373	294,560	30,344			
Net assets, beginning of year, as restated	1,925,154	1,381,009	3,306,163	790,644			
Net assets, end of year	\$ 2,063,341	\$ 1,537,382	\$ 3,600,723	\$ 820,988			

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

	Business-type Activities				
	<u>Maj</u> o Sewer Fund	or Enterprise Fu Water Fund	inds Total	Internal Service Funds	
Cash flows from operating activities: Cash received from customers Cash received from interfund services Cash payments to employees Cash payments to suppliers for goods and services Net cash provided by operating activities	\$ 315,419 (32,369) (62,517) 220,533	\$ 298,128 (52,771) (51,581) 193,776	\$ 613,547 (85,140) (114,098) 414,309	\$ 9,900 83,619 (13,537) (33,576) 46,406	
Cash flows from non-capital financing activities: Operating transfers in Operating transfers out	- -	<u>-</u>	<u>-</u>	19,500 (25,500)	
Net cash used by capital financing activities				(6,000)	
Cash flows from capital and related financing activities: Federal grants Acquisition and construction of capital assets Principal payments Interest paid Net cash used by capital and related	(48,997) (255,000) (22,580)	116,998 (195,927) (42,000) (83,679)	116,998 (244,924) (297,000) (106,259)	(73,688) (10,000) (7,363)	
financing activities	(326,577)	(204,608)	(531,185)	(91,051)	
Cash flows from investing activities: Interest received Rental income Other revenue	15,357	6,830	22,187	17,596 11,853 2,300	
Net cash provided by investing activities	15,357	6,830	22,187	31,749	
Net increase (decrease) in cash and cash equivalents	(90,687)	(4,002)	(94,689)	(18,896)	
Cash and cash equivalents, beginning of year	408,554	338,442	746,996	372,494	
Cash and cash equivalents, end of year	\$ 317,867	\$ 334,440	\$ 652,307	\$ 353,598	

continued

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2005

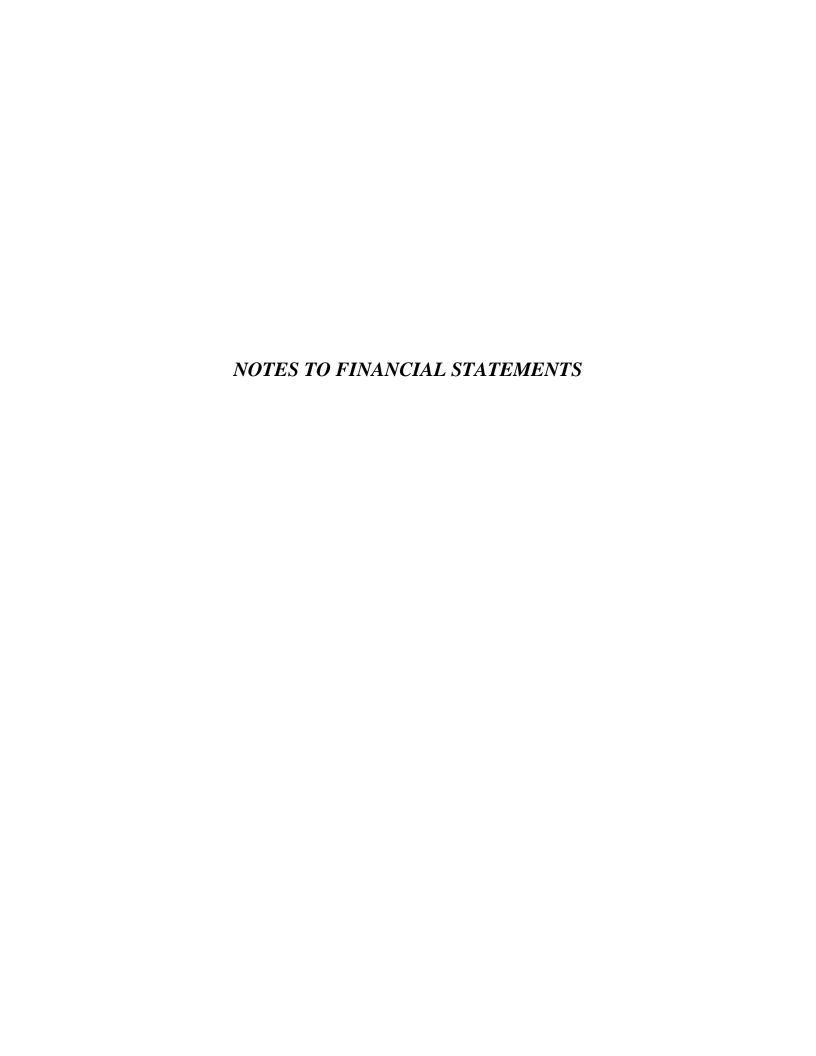
	Business-type Activities Major Enterprise Funds					Governmental Activities Internal			
		Sewer Water			inas			Service	
	Fund Fund		Total		<u>Funds</u>				
Reconciliation of operating income (loss) to net									
cash provided by operating activities:									
Operating income (loss)	\$	145,410	\$	116,224	\$	261,634	\$	11,958	
Adjustments:									
Depreciation		83,024		49,370		132,394		36,153	
Change in assets and liabilities:									
Accounts receivable		(6,802)		(2,826)		(9,628)		-	
Prepaid expenses		(20)		89		69		-	
Accounts payable and accrued expenses		(1,026)		30,695		29,669		(1,705)	
Compensated absences payable		(53)		224	_	171			
Net cash provided by operating activities	\$	220,533	\$	193,776	\$	414,309	\$	46,406	

FIDUCIARY FUND

STATEMENT OF NET ASSETS

June 30, 2005

	Agency Funds
Assets:	¢ 9.065
Cash and cash equivalents	\$ 8,065
Total assets	8,065
Liabilities: Accounts payable and accrued expenses Total liabilities	8,065 8,065
Net Assets: Unrestricted	
Total net assets	\$ -



NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Yale, Michigan, established in 1905, is a public corporation created under the Constitution and statutes of the State of Michigan. Located in St. Clair County, the City of Yale covers an area of approximately one square mile and is one of seven cities in St. Clair County, Michigan, each of which is a separate governmental entity. The City operates under an elected City Council which consists of a Mayor, Clerk, Treasurer, and six Council members and provides services in many areas including law enforcement, fire protection, ambulance services, water, sewer, solid waste disposal, streets, and parks and recreation to approximately 2,100 residents.

The accounting policies of the City of Yale conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units' columns in the government-wide financial statements include the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The issuance of bonded debt and levying of taxes by the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Local Development Finance Authority - The members of the governing board of the Local Development Finance Authority (LDFA) are appointed by the City Council. The issuance of bonded debt and levying of taxes by the LDFA must be approved by the City Council. The City also has the ability to significantly influence operations of the LDFA.

Separate financial statements for the component units are not prepared.

June 30, 2005

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

June 30, 2005

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

<u>General Fund</u> – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

<u>Major Street Fund</u> – The Major Street Fund is used to account for the maintenance and construction of the City's major street system.

<u>Local Street Fund</u> – The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

June 30, 2005

The City reports the following major enterprise funds:

<u>Sewer Fund</u> – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

<u>Water Fund</u> – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

<u>Deposits and Investments</u> – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

<u>Receivables and Payables</u> – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

<u>Inventories and Prepaid Items</u> —Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both government-wide and fund financial statements.

<u>Capital Assets</u> – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$2,500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if any were acquired after July 1, 2003. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Vehicles	5-10 years
Furniture and other equipment	4-30 years
Distribution systems - water and sewer	5-50 years

June 30, 2005

<u>Compensated Absences</u> – It is the City's policy to permit employees to accumulate earned but unused sick or vacation days depending on type of employee. Under the police union contract, employees with 5 or more years of service at separation will be paid 50% of the first 500 hours of accumulated sick days and 25% of the remainder, up to 980 hours. Other employees not covered under any specific contract with 1 or more years of service at separation will be paid for accumulated vacation days at their current rate of pay. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

<u>Long-term Obligations</u> — In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

<u>Fund Equity</u> – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Property Taxes:

Property taxes attach as an enforceable lien on property as of the date they are levied. City and community college taxes are levied and due July 1 and become delinquent after September 15. County, school, and library taxes are levied and due December 1 and become delinquent after February 14. City property tax revenues are recognized in the fiscal year for which the taxes are levied to the extent that they result in current receivables.

The 2004 taxable valuation of the City totaled \$34,553,965, on which ad valorem taxes levied consisted of 12.6775 mills for the City's operating purposes and 1.9595 mills for police protection.

The delinquent real property taxes of the City are purchased by St. Clair County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

June 30, 2005

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to July 1, the budget is legally adopted by a City Council resolution.
- 4. The City Manager is authorized to transfer budgeted amounts between line items within an activity. However, any revision that alters the total expenditures of any fund must be approved by the City.
- 5. Formal budgetary integration is employed as a management control device during the year for all funds.
- 6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
- 7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

		Final				Actual Over		
	<u>B</u>			<u>Actual</u>	Final Budget			
General Fund								
Public safety	\$	354,811	\$	358,205	\$	3,394		
Recreation and culture		40,323		41,291		968		
Other		13,740		13,758		18		

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2004	\$ -
Current year building permit revenue	4,778
Related expenses:	
Direct costs	 6,094
Cumulative surplus at June 30, 2005	\$

June 30, 2005

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at June 30, 2005 are included in the statement of net assets under the following categories:

	Governmental <u>Activities</u>		Business-type <u>Activities</u>		Total Primary <u>Government</u>		Component <u>Units</u>	
Cash and cash equivalents Investments	\$	1,146,405 2,545	\$	587,515	\$	1,733,920 2,545	\$	102,215
Restricted cash and cash equivalents		-		64,792		64,792		
	\$	1,148,950	\$	652,307	\$	1,801,257	\$	102,215

Deposits:

The breakdown between deposits and investments for the City is as follows:

	Primary <u>overnment</u>	Component <u>Units</u>		
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,798,212	\$	102,215	
Investments in taxable bonds and similar vehicles Petty cash and cash on hand	 2,545 500		-	
Total	\$ 1,801,257	\$	102,215	

The deposits of the primary government and component units were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,945,602, of which \$748,726 is covered by federal depository insurance and the remainder was uninsured and uncollaterized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Investments:

State statutes authorize the City to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a City.

June 30, 2005

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	 Category						Reported		
	 1		2		3		mount ir Value)		
Primary government: GNMA bonds	\$ 	\$	2,545	\$		<u>\$</u>	2,545		

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

The ordinance authorizing issuance of the 2001 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Receiving Account - All receipts are initially deposited into this account.

Operation and Maintenance Account - Quarterly transfers are to be made to cover upcoming operating expenses.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due.

Bond Reserve Account – Excess funds of up to \$2,750 per quarter are to be transferred to this account until \$111,000 is accumulated.

Water

As of June 30, 2005, the City has set aside sufficient amounts as follows:

	<u>water</u>
Restricted cash and cash equivalents:	
Bond and interest redemption account	\$ 31,792
Bond reserve	33,000
	\$ 64,792

June 30, 2005

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities was as follows:

	Beginning Balance		Additions		Retirements			Ending Balance
Governmental activities:								_
Nondepreciable capital assets								
Land	\$	381,161	\$	=	\$	<u> </u>	\$	381,161
Depreciable capital assets								
Buildings and improvements		565,096		-		-		565,096
Furniture and equipment		433,970		90,153		(48,562)		475,561
Infrastructure		-		21,985		-		21,985
Land improvements		13,718		-		-		13,718
Vehicles		433,722		39,000			_	472,722
Total depreciable capital assets		1,446,506		151,138		(48,562)		1,549,082
Accumulated depreciation		(778,714)		(51,330)		48,562	_	(781,482)
Depreciable capital assets, net		667,792		99,808			_	767,600
Governmental activities, capital								
assets, net	\$	1,048,953	\$	99,808	\$		\$	1,148,761
		Beginning <u>Balance</u>	£	Additions	<u>Re</u>	tirements		Ending <u>Balance</u>
Business-type activities: Depreciable capital assets						_		
Equipment .	\$	173,926	\$	48,997	\$	-	\$	222,923
Sewer system		3,486,130		-		-		3,486,130
Water system		2,970,594		195,927		-	_	3,166,521
Total depreciable capital assets		6,630,650		244,924		-		6,875,574
Accumulated depreciation		(882,534)		(132,394)			_	(1,014,928)
Depreciable capital assets, net		5,748,116		112,530				5,860,646
Business-type activities, capital assets, net	\$	5,748,116	\$	112,530	\$	-	\$	5,860,646

June 30, 2005

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 7,615
Public works	36,154
Recreation and culture	 7,561
Total governmental activities	\$ 51,330
Business-type activities:	
Sewer	\$ 83,024
Water	 49,370
Total business-type activities	\$ 132,394

NOTE 6: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At year end, the City had no deferred revenue.

NOTE 7: LONG-TERM DEBT

The City may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

June 30, 2005

Long-term liabilities at June 30, 2005 consisted of the following:

			Annual	Original	Balance
		Interest	Principal	Issue	at
Types of Indebtedness	Maturity	Rates	Payments	Amount	Year-End
Governmental Activities					
Agreements:					
Purchase contract - Fire truck	4/1/06-4/1/16	4.75%	\$10,000-17,500	\$185,000	\$145,000
Business-type Activities					
General Obligation Bonds:					
1993 Series - County of St. Clair					
Proj 5086-01	10/1/05-10/1/13	2.00%	125,000-150,000	2,486,552	1,240,000
1992 Series - County of St. Clair					
Sewage Disposal System No. XI	11/1/05-11/1/08	6.50-6.75%	25,000	400,000	-
Revenue Bonds:					
2002 Series - Water Supply					
System Revenue Bond	10/1/05-10/1/40	4.875%	20,000-90,000	1,857,000	1,706,000
Component Units					
Agreements:					
Contract payable - Repair work	12/30/05-12/30/07	0.00%	5,000	25,000	15,000
Note payable - Downtown improvements	6/3/06-6/3/08	2.23%	20,991-21,930	105,000	64,382
Loan payable	12/5/05	1.90%	5,300	5,300	5,300

The following is a summary of long-term liabilities transactions for the year ended June 30, 2005:

	Beginning			Ending	Due Within	
	Balance	Additions	Retirements	Balance	One Year	
Governmental activities:						
Agreements:						
Purchase contract - Fire truck	\$ 155,000	\$ -	\$ (10,000)	\$ 145,000	\$ 10,000	
Compensated Absences	15,243	2,464		17,707		
Total governmental activities						
- long-term liabilities	<u>\$ 170,243</u>	\$ 2,464	\$ (10,000)	<u>\$ 162,707</u>	\$ 10,000	
Business-type activities:						
General Obligation Bonds:						
1992 Issue	\$ 125,000	\$ -	\$ (125,000)	\$ -	\$ -	
1993 Issue	1,370,000	-	(130,000)	1,240,000	125,000	
Revenue Bonds:						
2002 Issue	1,748,000	-	(42,000)	1,706,000	44,000	
Compensated Absences	1,768	171		1,939		
Total business-type activities						
- long-term liabilities	\$ 3,244,768	\$ 171	\$ (297,000)	\$ 2,947,939	\$ 169,000	

June 30, 2005

	Beginning Balance		Additions		Retirements		Ending Balance		Due Within One Year	
Component units:										
Agreements										
Contract payable	\$	20,000	\$	-	\$	(5,000)	\$	15,000	\$	5,000
Note payable		84,918		-		(20,536)		64,382		20,991
Loan payable		5,300		-				5,300		5,300
Total component units - long-term liabilities	\$	110,218	\$		\$	(25,536)	\$	84,682	\$	31,291

Annual debt service requirements to maturity for the above long-term liabilities are as follows:

Year Ended	Governmental Activities					Business-type Activities						
June 30,	P	rincipal	I	nterest	Total		Principal		Interest		Total	
2006	\$	10,000	\$	6,650	\$	16,650	\$	169,000	\$	95,645	\$	264,645
2007		10,000		6,175		16,175		176,000		100,901		276,901
2008		12,500		5,641		18,141		178,000		96,010		274,010
2009		12,500		5,047		17,547		185,000		90,971		275,971
2010		12,500		4,453		16,953		160,000		86,515		246,515
2011-2015		70,000		12,824		82,824		704,000		374,110		1,078,110
2016-2020		17,500		416		17,916		152,000		317,021		469,021
2021-2025		-		-		-		192,000		275,290		467,290
2026-2030		-		-		-		242,000		222,690		464,690
2031-2035		-		-		-		307,000		155,976		462,976
2036-2040		-		-		-		391,000		71,444		462,444
2041		-				<u> </u>		90,000		2,194		92,194
	\$	145,000	\$	41,206	\$	186,206	\$ 2	2,946,000	\$ 1	1,888,767	\$ 4	4,834,767

Year Ended	Component Units									
June 30,	P	rincipal	Iı	iterest	Total					
2006	\$	31,291	\$	1,538	\$	32,829				
2007		26,460		968		27,428				
2008		26,931		489		27,420				
	\$	84,682	\$	2,995	\$	87,677				

June 30, 2005

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	Gov.	Business-type Activities		
Receivables				
Accounts	\$	13,892	\$	102,800
Interest		3,142		-
Intergovernmental		89,047		-
Total receivables	\$	106,081	\$	102,800
Accounts payable and accrued expenses				
Accounts	\$	19,364	\$	39,381
Payroll and related liabilities		2,504		1,312
Interest				26,992
Total accounts payable and accrued expenses	\$	21,868	\$	67,685

NOTE 9: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	 mount
Cemetery Operating Fund	Cemetery Perpetual Care Fund	\$ 9,779

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund statements were as follows:

Funds Transferred From	Funds Transferred To	 mount
Cemetery Perpetual Care Fund	Cemetery Operating Fund	\$ 9,779
Equipment Fund	General Fund	6,000
Public Improvement Fund	Equipment Fund	 19,500
		\$ 35,279

June 30, 2005

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation).

The City has purchased commercial insurance for risks to cover these losses. The City also carries commercial insurance for other risks of loss, including employee health insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan:

The City does not have an employee pension plan.

Post Employment Benefits:

The City currently has no requirement to pay employee post employment benefits.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

In accordance with GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the City has placed all deferred compensation plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the City's financial statements.

NOTE 12: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

June 30, 2005

NOTE 13: COMPONENT UNITS REPORTING

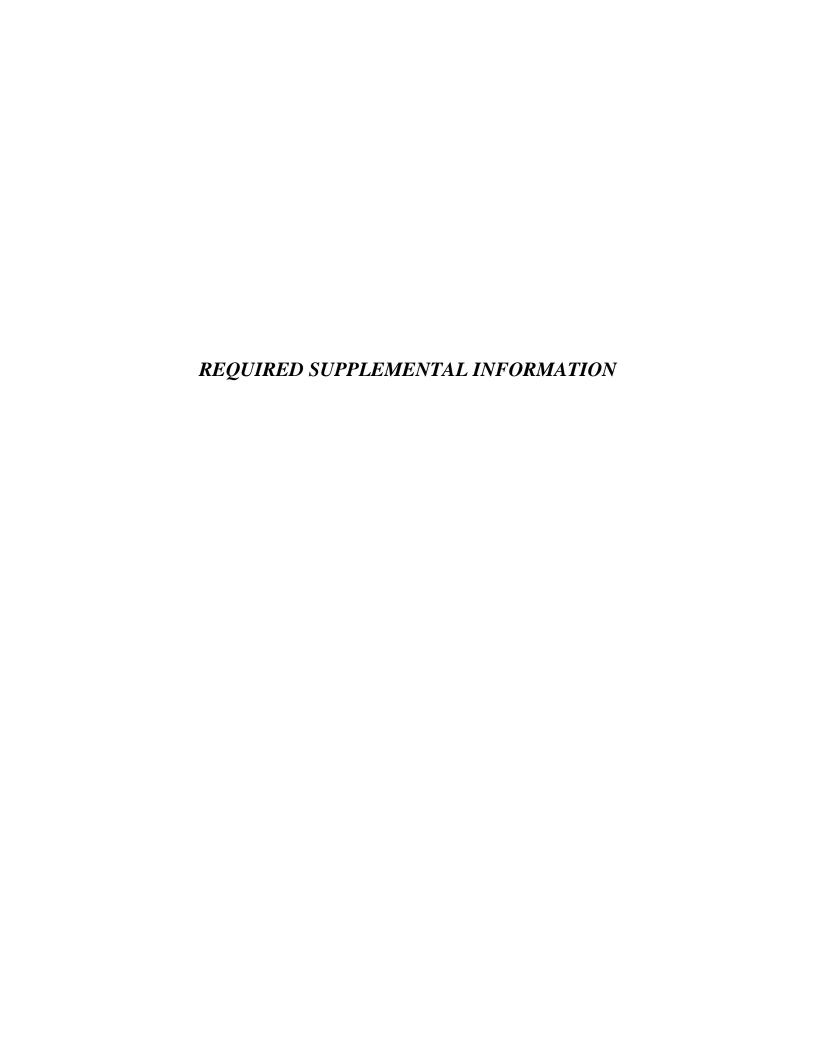
A condensed statement of net assets for each of the discretely presented component units is shown below. The statement of activities is presented in the government-wide financial statements.

	Downtown Development Authority		Deve Fi	Local elopment inance ethority	Total
Assets:	110	<u>Timilority</u>		<u>)</u>	10101
Current and other assets	\$	83,069	\$ 26,533		\$ 109,602
Capital assets					
Total assets		83,069		26,533	 109,602
Liabilities:					
Long-term liabilities		64,382		20,300	84,682
Other liabilities		508		6,450	 6,958
Total liabilities		64,890		26,750	 91,640
Net assets:					
Unrestricted	\$	18,179	\$	(217)	\$ 17,962

NOTE 14: PRIOR PERIOD ADJUSTMENTS

The governmental activities beginning net assets were restated as follows:

	Governmental
	<u>Activities</u>
Net assets, beginning of year, as previously stated	\$ 2,109,205
Internal balance between governmental activities and business-type activities resulting	
from internal service funds allocation that was eliminated	(18,878)
Net assets, beginning of year, as restated	\$ 2,090,327
The business-type activities beginning net assets were restated as follows:	
	Business-type <u>Activities</u>
Net assets, beginning of year, as previously stated	\$ 3,287,285
Internal balance between governmental activities and business-type activities resulting	
from internal service funds allocation that was eliminated	18,878
Net assets, beginning of year, as restated	\$ 3,306,163



BUDGETARY COMPARISON SCHEDULE

							A	Actual
		Budgeted Amounts					Ove	r (Under)
	(Original		Final		Actual	Fine	ıl Budget
Revenues:								
Property taxes	\$	463,720	\$	463,720	\$	476,705	\$	12,985
Licenses and permits		7,540		7,540		4,778		(2,762)
State grants		215,100		215,100		218,506		3,406
Charges for services		74,560		74,560		73,412		(1,148)
Fines and forfeits		2,800		2,800		7,117		4,317
Interest and rents		13,800		13,800		12,030		(1,770)
Other revenue		4,500		4,500		12,116		7,616
Total revenues		782,020		782,020		804,664		22,644
Expenditures:								
Current								
General government		184,661		187,636		181,420		(6,216)
Public safety		318,621		353,836		355,833		1,997
Public works		187,415		187,415		183,554		(3,861)
Recreation and culture		39,143		40,323		41,291		968
Other		13,740		13,740		13,758		18
Capital outlay		975		2,380		6,810		4,430
Total expenditures		744,555		785,330		782,666	_	(2,664)
Excess (deficiency) of								
revenues over expenditures		37,465		(3,310)	_	21,998	_	25,308
Other financing sources:								
Transfers in				6,000		6,000		
Total other financing sources		-		6,000		6,000		-
Net change in fund balance		37,465		2,690		27,998		25,308
Fund balance, beginning of year		527,396		527,396		527,396		
Fund balance, end of year	\$	564,861	\$	530,086	\$	555,394	\$	25,308

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

							F	Actual
		Budgeted Amounts					Ove	r (Under)
	0	riginal	Final		Final Actual		Fine	al Budget
Revenues:								
State grants	\$	89,000	\$	89,000	\$	90,494	\$	1,494
Interest and rents		1,800		1,800		6,664		4,864
Other revenue						4,376		4,376
Total revenues		90,800		90,800		101,534		10,734
Expenditures:								
Current		55.505		55 505		50.202		(5.202)
Public works		55,595		55,595		50,203		(5,392)
Total expenditures		55,595		55,595		50,203		(5,392)
Excess (deficiency) of								
revenues over expenditures		35,205		35,205		51,331		16,126
Fund balance, beginning of year		64,374		64,374		64,374		_
Fund balance, end of year	\$	99,579	\$	99,579	\$	115,705	\$	16,126

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts					Over	Actual r (Under)
	_0	riginal		Final	 Actual	Fine	ıl Budget
Revenues:							
State grants	\$	36,500	\$	36,500	\$ 37,013	\$	513
Interest and rents		1,400		1,400	 4,085		2,685
Total revenues		37,900		37,900	 41,098		3,198
Expenditures:							
Current							
Public works		32,880		32,880	 27,043		(5,837)
Total expenditures		32,880		32,880	 27,043		(5,837)
Excess (deficiency) of							
revenues over expenditures		5,020		5,020	14,055		9,035
Fund balance, beginning of year		91,919		91,919	 91,919		
Fund balance, end of year	\$	96,939	\$	96,939	\$ 105,974	\$	9,035



DETAILED SCHEDULE OF REVENUES

Revenues:	
Current taxes:	φ 454 102
Property taxes	\$ 454,183
Trailer tax	308
Penalties and interest on taxes	5,507
Administration fees	16,707
	476,705
Licenses and permits:	
Nonbusiness licenses and permits	4,778
	4,778
State grants:	
Liquor license fees	1,124
State revenue sharing - sales tax	214,271
Police	3,111
	218,506
Charges for services:	
Refuse collection fees	72,612
Zoning permits and lot splits	800
Zoning permits and for spines	73,412
	73,412
Fines and forfeitures:	7 117
Police fines and reports	7,117
	7,117
Interest and rents:	
Interest	7,980
Rents	4,050
	12,030
Other Revenue:	
Insurance recoveries	3,154
Refunds and rebates	3,554
Other	5,408
	12,116
Total revenues	804,664
	33.,631
Other Financing Sources:	
Transfers from other funds	6,000
	6,000
Total revenues and other financing sources	\$ 810,664

DETAILED SCHEDULE OF EXPENDITURES

General Government:	
Council:	Φ 0.600
Personnel	\$ 9,698
	9,698
Manager:	54 205
Personnel	54,305
Fringe benefits Supplies	15,086 11
Mileage	498
Education and training	22
Equipment rental	110
Other	51
	70,083
Clerk:	
Personnel	6,305
Fringe benefits	477
Supplies	53
Mileage	101
Dues and memberships	75
Other	103
	7,114
Audit:	
Contracted services	3,595
	3,595
Board of Review:	
Contracted services	525
	525
Treasurer:	
Personnel	7,885
Fringe benefits	610
Supplies	672
Printing and publications	1,072
	10,239
Assessor:	
Fringe benefits	28
Supplies	335
Contracted services	8,876
Printing and publications	790
Repairs and maintenance	315
	10,344

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

General Government (continued):	
Elections:	
Supplies	\$ 1,994
	1,994
Buildings and Grounds:	
Personnel	7,242
Fringe benefits	2,718
Supplies	3,773
Telephone	2,066
Mileage	11
Dues and memberships	1,676
Education and training	194
Printing and publications	1,557
Utilities	10,069
Repairs and maintenance	17,757
Equipment rental	659
Other	5,452
	53,174
Attorney:	
Contracted services	13,389
Contracted Services	13,389
Decougions	
Decorations:	970
Personnel	870
Fringe benefits	114
Repairs and maintenance	77
Equipment rental	204
	1,265
Total general government	181,420
Public Safety:	
Police:	
Personnel	209,508
Fringe benefits	49,478
Supplies	11,062
Contracted services	3,828
Telephone	5,879
Mileage	413
Dues and memberships	289
Education and training	71
Insurance	22,258
Repairs and maintenance	6,879
Equipment rental	5,310
Other	30
	315,005

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Public Safety (continued):		
Fire:	_	
Personnel	\$	4,660
Fringe benefits		640
Supplies		4,579
Contracted services		400
Dues and memberships		150
Education and training Insurance		86
Repairs and maintenance		14,412 1,468
Other		3,592
Other		,
		29,987
Building Inspection Department:		6.004
Contracted services		6,094
		6,094
Crossing Guard:		
Contracted services		4,747
		4,747
Total public safety		355,833
Public Works:		
Department of Public Works:		
Personnel		37,836
Fringe benefits		11,923
Supplies		1,589
Contracted services		3,983
Telephone		883
Education and training		55
Insurance		7,755
Utilities		4,652
Repairs and maintenance		2,567
Equipment rental		11,077
Other		28
		82,348
Street Lighting:		
Utilities		38,509
		38,509
Pofuso		30,307
Refuse: Supplies		739
Contracted services		61,958
Contracted services	-	
		62,697
Total public works		183,554

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Recreation and Culture:		
Parks:		
Personnel	\$	12,237
Fringe benefits		1,758
Supplies		1,532
Insurance		2,738
Utilities		1,798
Repairs and maintenance		3,431
Equipment rental		6,415
Other		1,708
		31,617
Library:		
Personnel		33
Fringe benefits		185
Supplies		781
Telephone		634
Insurance		2,254
Utilities		4,277
Repairs and maintenance		1,502
Equipment rental	_	8
		9,674
Total recreation and culture		41,291
Other:		
Insurance and bonds		13,758
		13,758
Total other		13,758
i otai ottiei		13,736
Capital Outlay:		
General government		4,438
Public safety		2,372
		6,810
Total capital outlay		6,810
	Φ	702 666
Total expenditures	\$	782,666

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2005

			S_{j}	pecial Rev	enue	Funds		
	City Street <u>Fund</u>		Park Improvement Fund		Cemetery Operating Fund		Criminal Justice Training Fund	
Assets:	_							
Cash and cash equivalents Investments	\$	9,896	\$	19,220	\$	9,468	\$	713
Due from other funds Prepaid expenditures		- - -		- - -		9,779 500		- - -
Total assets	\$	9,896	\$	19,220	\$	19,747	\$	713
Liabilities and Fund Balances: Liabilities:								
Accounts payable and accrued expenses Due to other funds	\$	2,131	\$	<u>-</u>	\$	403	\$	
Total liabilities		2,131				403		
Fund balances: Reserved for:								
Prepaid expenditures		-		-		500		-
Nonexpendable cemetery principal Unreserved:		-		-		-		-
Special revenue funds		7,765		19,220		18,844		713
Total fund balances		7,765		19,220		19,344		713
Total liabilities and fund balances	\$	9,896	\$	19,220	\$	19,747	\$	713

continued

Spe	ecial Rev	enue	Funds	Permanent Fund Cemetery			Total
For	Drug Asset Forfeiture Fund		Library		erpetual Care		onmajor vernmental
ŀ	und		Fund	_	<u>Fund</u>		Funds
\$	66 -	\$	4,336	\$	105,689 2,545	\$	149,388 2,545
	- -		-		<u>-</u>		9,779 500
\$	66	\$	4,336	\$	108,234	\$	162,212
o		\$		\$		\$	2.524
\$		D			9,779)	2,534 9,779
					9,779		12,313
	-		-		-		500
	-		-		98,455		98,455
	66		4,336				50,944
	66		4,336		98,455		149,899
\$	66	\$	4,336	\$	108,234	\$	162,212

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

		Special Rev	enue Funds	
	City Street Fund	Park Improvement Fund	Cemetery Operating Fund	Criminal Justice Training Fund
Revenues:				
State grants	\$ -	\$ -	\$ -	\$ 1,230
Contributions from other units	-	7,454	-	-
Charges for services	-	-	20,871	-
Interest and rents	303	359	128	16
Other revenue			9,640	
Total revenues	303	7,813	30,639	1,246
Expenditures: Current				
General government	_	_	36,507	_
Public safety	_	_	-	1,619
Public works	4,310	-	-	-
Recreation and culture	-	61	-	-
Capital outlay	21,985			
Total expenditures	26,295	61	36,507	1,619
Excess (deficiency) of				
revenues over expenditures	(25,992)	7,752	(5,868)	(373)
Other financing sources (uses): Transfers in	_	_	9,779	_
Transfers out	_	_	-	_
	-			
Total other financing sources (uses)		<u> </u>	9,779	
Net change in fund balance	(25,992)	7,752	3,911	(373)
Fund balances, beginning of year	33,757	11,468	15,433	1,086
Fund balances, end of year	\$ 7,765	\$ 19,220	\$ 19,344	\$ 713

continued

		Permanent			
Special Reven	ue Funds	<u>Fund</u>			
*		Cemetery	Total		
Drug Asset		Perpetual	Nonmajor		
Forfeiture	Library	Care	Governmental		
Fund	Fund	Fund	Funds		
	1 1111111				
\$ - \$	S -	\$ -	\$ 1,230		
-	-	-	7,454		
-	-	-	20,871		
1	91	10,096	10,994		
	1,000	4,600	15,240		
1	1,091	14,696	55,789		
-	_	3	36,510		
_	-	-	1,619		
_	-	-	4,310		
_	230	-	291		
	-		21,985		
	230	3	64,715		
1	861	14,693	(8,926)		
-	-	-	9,779		
	-	(9,779)	(9,779)		
		(9,779)			
1	861	4,914	(8,926)		
65	3,475	93,541	158,825		
\$ 66 \$	4,336	\$ 98,455	\$ 149,899		

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET ASSETS

June 30, 2005

			Economic Development Fund		E	quipment Fund		Total
Assets:								
Current Assets:								
Cash and cash equivalents	\$	97,926	\$	34,884	\$	220,788	\$	353,598
Total current assets		97,926	_	34,884		220,788	_	353,598
Noncurrent assets:								
Capital assets:								
Nondepreciable capital assets		-		138,341		-		138,341
Depreciable capital assets, net		121,593				406,513		528,106
Total noncurrent assets		121,593		138,341		406,513		666,447
Total assets		219,519		173,225		627,301		1,020,045
Liabilities: Current Liabilities:								
Accounts payable and accrued expenses		-		-		1,686		1,686
Current portion of long-term debt		-		-		10,000		10,000
Total current liabilities		_		_		11,686		11,686
Noncurrent liabilities:								
Long-term debt						135,000		135,000
Total noncurrent liabilities						135,000		135,000
Total liabilities						146,686		146,686
Net assets:								
Invested in capital assets, net of related debt		121,593		138,341		261,513		521,447
Unrestricted		97,926		34,884		219,102		351,912
Total net assets	\$	219,519	\$	173,225	\$	480,615	\$	873,359

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Public Improvement Fund	Economic Development Fund	Equipment Fund	<u> Total</u>
Operating revenues:				
Charges for services	\$ -	\$ -	\$ 9,900	\$ 9,900
Equipment rental			83,619	83,619
Total operating revenues			93,519	93,519
Operating expenses:				
Personnel	-	-	13,537	13,537
Fringe benefits	-	-	3,518	3,518
Supplies	-	-	6,625	6,625
Contracted services	55	2,609	708	3,372
Repair and maintenance	-	14	18,307	18,321
Other services and supplies	-	-	35	35
Depreciation	3,341		32,812	36,153
Total operating expenses	3,396	2,623	75,542	81,561
Operating income (loss)	(3,396)	(2,623)	17,977	11,958
Non-operating revenues (expenses):				
Interest income	3,374	342	13,880	17,596
Rental income	11,853	-	-	11,853
Sale of assets	-	35,370	17,001	52,371
Other revenue	-	-	2,300	2,300
Interest expense			(7,363)	(7,363)
Total non-operating revenues (expenses)	15,227	35,712	25,818	76,757
Net income (loss) before operating transfers	11,831	33,089	43,795	88,715
Non-operating revenues (expenses):				
Transfer from other funds	-	-	19,500	19,500
Transfer to other funds	(19,500)	-	(6,000)	(25,500)
Total operating transfers	(19,500)		13,500	(6,000)
Net income (loss)	(7,669)	33,089	57,295	82,715
Net assets, beginning of year	227,188	140,136	423,320	790,644
Net assets, end of year	\$ 219,519	\$ 173,225	\$ 480,615	\$ 873,359

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

ash flows from operating activities:		Public provement Fund	Economic Development Fund		Equipment Fund			Total
Cash flows from operating activities: Cash received from customers	\$	_	\$	_	\$	9,900	\$	9,900
Cash received from interfund services		-		-		83,619		83,619
Cash payments to employees		-		- (2.025)		(13,537)		(13,537)
Cash payments to suppliers for goods and services		(55)		(3,935)		(29,586)		(33,576)
Net cash provided (used) by operating activities		(55)		(3,935)		50,396	_	46,406
Cash flows from non-capital financing activities: Operating transfers in Operating transfers out		- (19,500)		- -		19,500 (6,000)		19,500 (25,500)
Net cash provided (used) by capital financing activities		(19,500)				13,500		(6,000)
Cash flows from capital and related financing activities:								
Acquisition and construction of capital assets		=		35,370		(109,058)		(73,688)
Principal payments		-		-		(10,000)		(10,000)
Interest paid			_		_	(7,363)		(7,363)
Net cash provided (used) by capital and related financing activities				35,370		(126,421)		(91,051)
Cash flows from investing activities:								
Interest received		3,374		342		13,880		17,596
Rental income Other revenue		11,853		-		2,300		11,853 2,300
Net cash provided by investing activities		15,227	_	342		16,180		31,749
		13,227		342		10,100	_	31,749
Net increase (decrease) in cash and cash equivalents		(4,328)		31,777		(46,345)		(18,896)
Cash and cash equivalents, beginning of year		102,254		3,107		267,133		372,494
Cash and cash equivalents, end of year	\$	97,926	\$	34,884	\$	220,788	\$	353,598
Reconciliation of operating income (loss) to net								
cash provided by operating activities: Operating income (loss)	\$	(3,396)	Ф	(2,623)	¢	17,977	\$	11,958
Adjustments:	φ	(3,390)	Ф	(2,023)	φ	17,977	Ф	11,936
Depreciation		3,341		-		32,812		36,153
Change in assets and liabilities: Accounts payable and accrued expenses				(1,312)		(393)		(1,705)
Net cash provided by operating activities	\$	(55)	\$	(3,935)	\$	50,396	\$	46,406

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2005

	July 1 2004		Additions	Deductions	June 30, 2005
Payroll Fund					
Assets: Cash and cash equivalents	<u>\$ (1</u>	<u>,654</u>)	\$ 662,054	\$ 653,151	\$ 7,249
Liabilities: Accounts payable	\$ (1	<u>,654</u>)	\$ 662,054	\$ 653,151	\$ 7,249
Current Tax Collection Fund					
Assets: Cash and cash equivalents	\$ 266	5,879	\$ 1,595,743	\$ 1,861,806	\$ 816
Liabilities: Accounts payable and accrued expenses Due to other governmental units	\$ 266	5,879 -	\$ 599,325 996,418	\$ 865,388 996,418	\$ 816
Total liabilities	\$ 266	5,879	\$ 1,595,743	\$ 1,861,806	\$ 816
Total Agency Funds	_				
Assets: Cash and cash equivalents	<u>\$ 265</u>	5,225	\$ 2,257,797	\$ 2,514,957	\$ 8,065
Liabilities: Accounts payable and accrued expenses Due to other governmental units	\$ 265	5,225	\$ 1,261,379 996,418	\$ 1,518,539 996,418	\$ 8,065
Total liabilities	\$ 265	5,225	\$ 2,257,797	\$ 2,514,957	\$ 8,065

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2005

PURCHASE CONTRACT - FIRE TRUCK

Issue dated October 12, 2001 in the amount of \$ 185,000

Less: Principal paid in prior years (30,000)

Principal paid in current year (10,000)

Balance payable at June 30, 2005 \$ 145,000

Balance payable as follows:

									Total
		P	rincipal		Interest		Interest		Annual
Year Ended	<u>Rate</u>	<u>O</u>	ctober 1	9	October 1		April 1	Re	<u>quirement</u>
2006	4.750/	Φ	10.000	Ф	2 444	Ф	2.206	Ф	16.650
2006	4.75%	\$	10,000	\$	3,444	\$	3,206	\$	16,650
2007	4.75%		10,000		3,206		2,969		16,175
2008	4.75%		12,500		2,969		2,672		18,141
2009	4.75%		12,500		2,672		2,375		17,547
2010	4.75%		12,500		2,375		2,078		16,953
2011	4.75%		12,500		2,078		1,781		16,359
2012	4.75%		12,500		1,781		1,484		15,765
2013	4.75%		15,000		1,484		1,128		17,612
2014	4.75%		15,000		1,128		772		16,900
2015	4.75%		15,000		772		416		16,188
2016	4.75%		17,500		416				17,916
							40.004		
		\$	145,000	\$	22,325	\$	18,881	\$	186,206

Note: The Equipment Fund is obligated for this debt.

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2005

GENERAL OBLIGATION BOND (COUNTY OF ST. CLAIR) - SEWAGE DISPOSAL SYSTEM NO. XI

Issue dated March 1, 1992 in the amount of \$\\$400,000

Less: Principal paid in prior years (275,000)

Principal paid in current year (125,000)

Balance payable at June 30, 2005 \$ -

Note: The Sewer Fund is obligated for this debt.

GENERAL OBLIGATION BOND (COUNTY OF ST. CLAIR) - PROJECT 5086-01

Issue dated March 12, 1993 in the amount of \$2,486,552

Less: Principal paid in prior years (1,121,552)

Principal paid in current year (125,000)

Balance payable at June 30, 2005 \$ 1,240,000

Balance payable as follows:

Year Ended	<u>Rate</u>	Principal October 1		Interest October 1	Interest April 1	Total Annual quirement
2006	2.00%	\$ 125,000	\$	12,400	\$ 11,150	\$ 148,550
2007	2.00%	130,000		11,150	9,850	151,000
2008	2.00%	130,000		9,850	8,550	148,400
2009	2.00%	135,000		8,550	7,200	150,750
2010	2.00%	140,000		7,200	5,800	153,000
2011	2.00%	140,000		5,800	4,400	150,200
2012	2.00%	145,000		4,400	2,950	152,350
2013	2.00%	145,000		2,950	1,500	149,450
2014	2.00%	 150,000	-	1,500		 151,500
		\$ 1,240,000	\$	63,800	\$ 51,400	\$ 1,355,200

Note: The Sewer Fund is obligated for this debt.

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2005

REVENUE BOND - WATER SUPPLY SYSTEM REVENUE BOND

Issue dated October 1, 2001 in the amount of \$ 1,857,000

Less: Principal paid in prior years (109,000)

Principal paid in current year (42,000)

Balance payable at June 30, 2005 \$ 1,706,000

Balance payable as follows:

							Total
		P	rincipal	Interest	Interest	1	Annual
Year Ended	<u>Rate</u>	<u>O</u>	ctober 1	October 1	April 1	Rec	<u>quirement</u>
2006	4.875%	\$	44,000	\$ 41,584	\$ 40,511	\$	126,095
2007	4.875%		46,000	40,511	39,390		125,901
2008	4.875%		48,000	39,390	38,220		125,610
2009	4.875%		50,000	38,220	37,001		125,221
2010	4.875%		20,000	37,001	36,514		93,515
2011	4.875%		22,000	36,514	35,977		94,491
2012	4.875%		24,000	35,977	35,392		95,369
2013	4.875%		25,000	35,392	34,783		95,175
2014	4.875%		26,000	34,783	34,149		94,932
2015	4.875%		27,000	34,149	33,491		94,640
2016	4.875%		28,000	33,491	32,809		94,300
2017	4.875%		29,000	32,809	32,102		93,911
2018	4.875%		30,000	32,102	31,371		93,473
2019	4.875%		32,000	31,371	30,591		93,962
2020	4.875%		33,000	30,591	29,786		93,377
2021	4.875%		35,000	29,786	28,933		93,719
2022	4.875%		37,000	28,933	28,031		93,964
2023	4.875%		38,000	28,031	27,105		93,136
2024	4.875%		40,000	27,105	26,130		93,235
2025	4.875%		42,000	26,130	25,106		93,236
2026	4.875%		44,000	25,106	24,034		93,140
2027	4.875%		46,000	24,034	22,912		92,946
2028	4.875%		48,000	22,912	21,742		92,654
2029	4.875%		51,000	21,742	20,499		93,241
2030	4.875%		53,000	20,499	19,207		92,706
2031	4.875%		56,000	19,207	17,842		93,049
2032	4.875%		59,000	17,842	16,404		93,246
2033	4.875%		61,000	16,404	14,917		92,321
2034	4.875%		64,000	14,917	13,357		92,274
2035	4.875%		67,000	13,357	11,724		92,081
2036	4.875%		71,000	11,724	9,994		92,718
2037	4.875%		74,000	9,994	8,190		92,184
2038	4.875%		78,000	8,190	6,289		92,479
2039	4.875%		82,000	6,289	4,290		92,579
2040	4.875%		86,000	4,290	2,194		92,484
2041	4.875%		90,000	 2,194	 		92,194
		\$	1,706,000	\$ 912,571	\$ 870,987	\$ 3	,489,558

Note: The Water Fund is obligated for this debt.

COMPONENT UNITS

SCHEDULE OF INDEBTEDNESS

June 30, 2005

PROMISSORY NOTE - DOWNTOWN IMPROVEMENTS

Issue dated Jun	ne 3, 2003 in the amount of	\$ 105,000
Less:	Principal paid in prior years Principal paid in current year	 (20,086) (20,532)
Balance payab	ele at June 30, 2005	\$ 64,382

Balance payable as follows:

Year Ended	<u>Rate</u>	<u>P</u>	rincipal	<u>Interest</u>	Total Annual quirement
2006 2007 2008	2.23% 2.23% 2.23%	\$	20,991 21,460 21,931	\$ 1,436 968 489	\$ 22,427 22,428 22,420
		\$	64,382	\$ 2,893	\$ 67,275

Note: The Downtown Development Authority is obligated for this debt.

LOAN PAYABLE

Issue dated December 5, 2003 in the amount of		\$ 5,300	
Less:	Principal paid in prior years Principal paid in current year	 - -	
Balance paya	able at June 30, 2005	\$ 5,300	

Balance payable as follows:

							Total
						A	Annual
Year Ended	<u>Rate</u>	<u>P</u>	rincipal		<u>Interest</u>	Rec	uirement
			•			•	•
2006	1.90%	\$	5,300	\$	102	\$	5,402
		-					
		\$	5,300	\$	102	\$	5,402
		Ψ	2,200	Ψ	102	<u> </u>	2,.02

Note: The Local Development Finance Authority is obligated for this debt.

COMPONENT UNITS

SCHEDULE OF INDEBTEDNESS

June 30, 2005

CONTRACT PAYABLE - REPAIR WORK

Balance payable at June 30, 2005		\$ 15,000
Less:	Principal paid in prior years Principal paid in current year	 (5,000) (5,000)
Issue dated I	December 30, 2003 in the amount of	\$ 25,000

Balance payable as follows:

Year Ended	<u>Rate</u>	<u>P</u>	rincipal
2006	0.00%	\$	5,000
2007	0.00%		5,000
2008	0.00%		5,000
		\$	15,000

Note: The Local Development Finance Authority is obligated for this debt.



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of City Council City of Yale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Yale, as of and for the year ended June 30, 2005, which collectively comprise the City of Yale's basic financial statements and have issued our report thereon dated September 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Yale's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Yale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Bothaume & Co.

Certified Public Accountants

September 21, 2005



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

MANAGEMENT LETTER

To the Members of City Council City of Yale, Michigan

We have completed our audit of the financial statements of the City of Yale for the year ended June 30, 2005, and have issued our report thereon dated September 21, 2005. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Yale taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the City management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination. If there is a need to discuss the above comments further, please contact us at your convenience.

Sincerely,

Berthiaume & Company Certified Public Accountants

Berthiaume & Co.

September 21, 2005